

BellSouth
Suite 900
1133-21st Street, N.W.
Washington, D.C. 20036-3351

whit.jordan@bellsouth.com

W. W. (Whit) Jordan
Vice President-Federal Regulatory

202 463-4114
Fax 202 463-4198

June 19, 2002

Ex Parte

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: CC Docket No. 96-45

Dear Ms Dortch:

On June 13, 2002, Pete Martin and the undersigned, both representing BellSouth, met with Bill Scher, Katie King, Bryan Clopton, Jennifer Schneider and Geoffrey Waldau from the Telecommunications Access Policy Division of the Wireline Competition Bureau in connection with the above referenced proceeding. Also participating by telephone were Peter Bluhm, Mary Newmeyer, Carl Johnson, Barb Meisenheimer, and Earl Poucher from various state commissions.

During the meeting, BellSouth explained its proposal for modifying the Commission's current universal service fund high cost mechanism for non-rural companies in response to the Tenth Circuit's remand of the Commission's Ninth Report and Order and Eighteenth Order on Reconsideration in CC Docket No. 96-45. Under BellSouth's proposal, any state with costs above the national average would be eligible for support if that state implemented certain measures designed to eliminate implicit subsidies. If all states that would be eligible for funding implemented the necessary measures to qualify for support, the high cost fund potentially could grow from the current \$385 million to \$427 million. The number of states that could qualify for support under the BellSouth plan would increase to thirty.

BellSouth also discussed changes to the current rules for determining funding eligibility to help insure the sustainability of the universal service fund. BellSouth recommended

that only one residential line per carrier per location be eligible for support and that any line that receives support must work at the customer's location.

Attached are the materials BellSouth used in this meeting. Pursuant to Section 1.1206(b)(2) of the Commission's rules, I am filing two copies of this notice and request that you associate this notice with the record in the above referenced docket.

Please call me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'W.W. Jordan', with a stylized, cursive script.

W.W. Jordan

Attachment

CC: Bill Scher
Katie King
Bryan Clopton
Jennifer Schneider
Geoffrey Waldau

BellSouth's Proposal for the Universal Service High-Cost Mechanism for Non-Rural LECs

Presented by BellSouth Telecommunications, Inc.
June 13, 2002

USF High Cost Plan – Current Plan and the Need for Change

- Provides support to non-rural carriers in states that exceed 135% of the national average in cost.
- The 10th Circuit Court remanded plan back to the FCC:
 - The FCC did not define “reasonably comparable”
 - The FCC did not justify 135% and did not show the fund was “sufficient”
 - The FCC did not put in-place inducements for state action to deal with implicit subsidies
- The current plan is also subject to problems due to carriers possibly gaming the system

Objectives for the High Cost Fund for Non-Rural Carriers

- Near-term – Continue to provide funding for states that have developed plans that rely on current levels of funding
- Long-term:
 - Modify the plan such that states would have an inducement to take action to end implicit subsidies
 - Implement changes that would minimize gaming opportunities thereby strengthening the long-term viability of the plan

Changes to Lines Eligible for Funding

- BellSouth would propose changes to funding eligibility to help ensure a sustainable fund that is true to universal service principles:
 - Only one residential line per carrier per location would be eligible for funding
 - No business lines would be eligible
 - Any line that receives funding would actually have to work at the customer's location

The New High Cost Fund – BellSouth Proposal

- Any state with average costs above the national average would be eligible for support if it implements certain measures:
 - Reduce intrastate switched access rates to parity with interstate switched access rates in a revenue neutral fashion, and
 - Realign local residential rates such that rural rate exchanges have rates at a level of 100-110% of urban rate exchanges. This range of rates meets the “reasonably comparable” standard. *Note: An exception should be made for states that already have rural rates that exceed the nationwide average urban rate.*
- States that do not deal with implicit subsidies would not be eligible for the matching component of Federal Lifeline funds

The BellSouth Proposal

Statewide Average Cost as % of National Average Cost	Federal Support Percentage
100-115%	10%
115-135%	30%
135+%	76%

BellSouth Proposal

- Example of BellSouth Plan:
 - Mississippi – Average per line support would go from \$7.41 to \$9.41 (see calculations next page)
- Other Key Points:
 - Rural carriers not included in this fund
 - States only get funding if they implement state measures
 - Support would be provided/disaggregated at the wire center level similar to current plan
 - Fund effective date: 1/1/2004

Mississippi

Nationwide average non-rural cost per line = \$23.52

Mississippi average non-rural cost per line = \$41.81

MS % of national non-rural average cost = 177.8%

100% = 23.52

115% = \$27.05

135% = \$31.75

\$ 27.05 - \$23.52 = \$3.53 X 10% = \$0.35

\$31.75 - \$27.05 = \$4.70 X 30% = \$1.41

\$41.81 - \$31.75 = \$10.06 X 76% = \$7.65

\$0.35 + \$01.41 + \$7.65 = \$9.41 monthly high-cost support/line

\$9.41 X 12 months = \$112.92 annual high-cost support/line

\$112.92 X 1,247,558 lines = \$140,896,433

\$140,896,433 X 61% (primary res lines) = \$86M - MS annual high-cost support
(ESTIMATE)

BellSouth Proposal - Numbers

- The total high cost fund would potentially grow from \$385M to \$427M
- Some growth pressures would be relieved via eligibility changes
- Potential Receipts – See table

State Funding Comparison Proposed vs Current High-Cost Mechanism

BELLSOUTH PROPOSED MECHANISM

Estimated Support

AK	\$ 4M
AL	\$ 70M
CT	\$ 2M
GA	\$ 4M
ID	\$ 1M
IN	\$ 10M
KS	\$ 1M
KY	\$ 35M
LA	\$ 15M
ME	\$ 13M
MI	\$ 10M
MN	\$ 2M
MS	\$ 86M
MO	\$ 11M
MN	\$ 5M
NE	\$ 4M
NH	\$ 2M
NM	\$ 1M
NC	\$ 36M
OH	\$ 13M
OK	\$ 3M
PR	\$ 4M
SC	\$ 12M
SD	\$ 1M
TN	\$ 23M
VA	\$ 12M
VT	\$ 5M
WV	\$ 32M
WI	\$ 5M
WY	\$ 5M

**BELLSOUTH PROPOSED
TOTAL HIGH-COST SUPPORT
\$ 427M**

2002 HIGH-COST SUPPORT

AL	\$ 43M
KY	\$ 3M
ME	\$ 6M
MS	\$ 119M
MT	\$ 11M
VT	\$ 9M
WV	\$ 41M
WY	\$ 10M

Total \$ 242M

2002 HOLD-HARMLESS SUPPORT

CA	\$ 5M
MO	\$ 2M
NC	\$ 7M
PR	\$ 109M
TX	\$ 20M

Total \$ 143M

**2002 TOTAL HIGH-COST &
HOLD-HARMLESS SUPPORT
\$385M**

Proposed Timing of BellSouth Proposal

- Keep current plan in-place until 1/1/2005
 - This would allow time for any state action that is implicated by a change in the plan
 - States that currently receive funding would have well defined transition period
- Implement new plan on 1/1/2004. States would receive the greater of the funding under the new plan or the “hold harmless” support from the old plan in 2004

Advantages of the BellSouth Proposal

- It meets the mandates set out by the Court
- Minimal increase in fund size upon implementation, and may result in smaller fund size in 2005 and beyond
- True to the principal of universal service – widespread availability of affordable residential service
- Provides inducement to the states to take action to mitigate implicit subsidies
- Mitigates gaming incentives in current mechanism